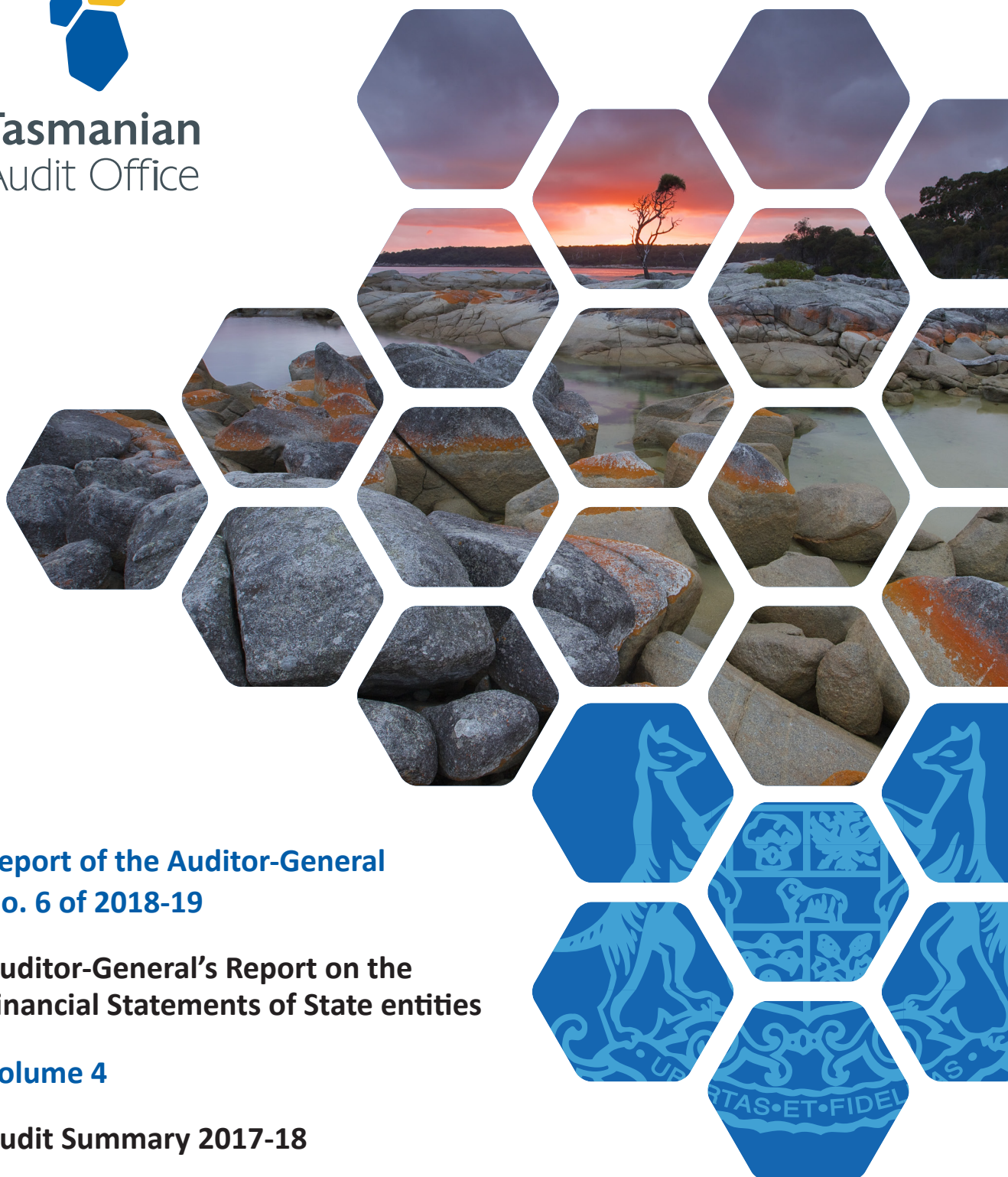




Tasmanian
Audit Office



**Report of the Auditor-General
No. 6 of 2018-19**

**Auditor-General's Report on the
Financial Statements of State entities**

Volume 4

Audit Summary 2017-18

November 2018

THE ROLE OF THE AUDITOR-GENERAL

The Auditor-General's roles and responsibilities, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (*Audit Act*).

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

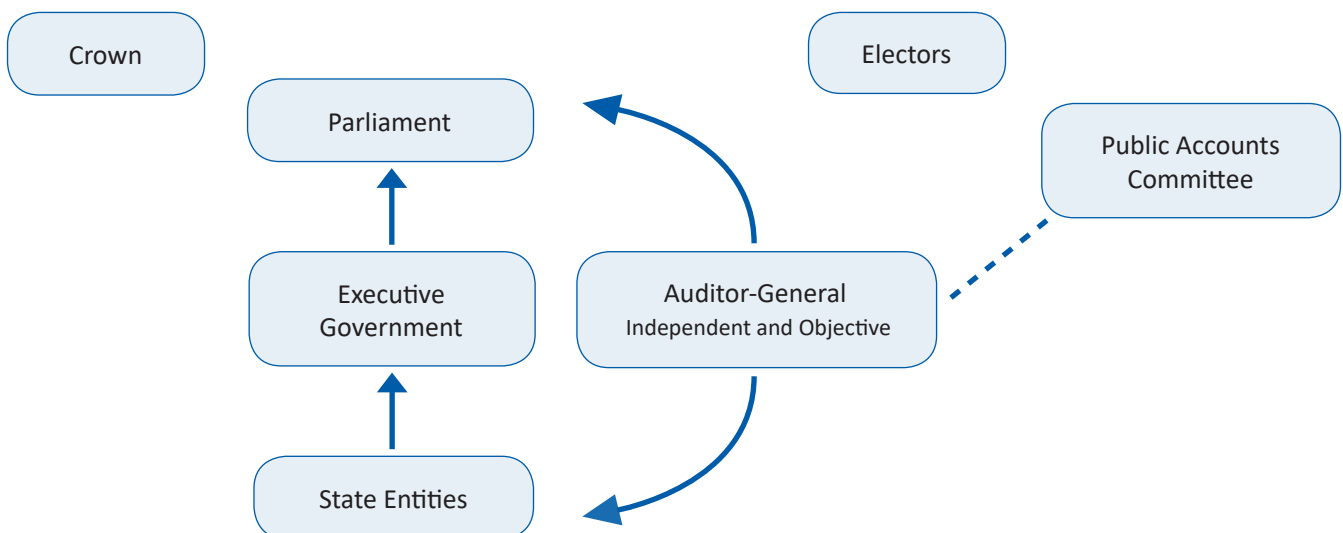
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

The Auditor-General's Relationship with the Parliament and State Entities

The Auditor-General's role as Parliament's auditor is unique.





2018
PARLIAMENT OF TASMANIA

Report of the Auditor-General
No. 6 of 2018-19

Auditor-General's Report on the Financial Statements of State entities

Volume 4

Audit Summary 2017-18

November 2018

Presented to both Houses of Parliament in accordance with the requirements of Section 29
of the *Audit Act 2008*

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29 November 2018

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President
Dear Madam Speaker

**Report of the Auditor-General No. 6 of 2018-19, Auditor-General's Report on the
Financial Statements of State entities, Volume 4 - Audit Summary 2017-18**

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the Financial Statements of State entities, Volume 4 - Audit Summary 2017-18.

Yours sincerely

Rod Whitehead
Auditor-General

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EXECUTIVE SUMMARY

INTRODUCTION

This Report is the fourth and final volume in our series informing Parliament on the outcomes of our audits of financial statements of State entities and Audited subsidiaries of State entities for 30 June 2018. This volume includes summaries relating to:

- the timeliness of financial reporting
- audit opinions on financial statements
- audit findings
- prior period errors
- reporting by Tasmanian public sector entities
- audits dispensed with
- setting audit fees for financial audits.

A change has been made to the information reported in our Report to Parliament volumes for 2017-18. In the past, this volume was presented in May following the completion of the 31 December audits. To assist with providing more timely information to Parliament for the 2018 audit cycle, it was decided to bring this volume forward to be presented with the other three volumes following the completion of the 30 June audits. This better aligns with the requirement in Section 29(1) of the *Audit Act 2008* (the Audit Act) for the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and Audited subsidiaries of State entities in respect of the preceding financial year.

Due to this transition, no information on the 31 December 2017 audits is included in this volume as this information was previously reported to Parliament in *Report of the Auditor-General No. 9 2017-18 Auditor-General's Report on the Financial Statements of State entities Volume 4 State entities 30 June and 31 December 2017*. Future summary volumes will include both the 31 December and 30 June audits relevant to the appropriate audit cycle.

GUIDE TO USING THIS REPORT

Guidance relating to the use and interpretation of financial information included in this Report can be found on our website: www.audit.tas.gov.au.

The guidance includes information on the calculation and explanation of financial ratios and performance indicators and the definition of audit finding risk ratings.

SUBMISSION OF FINANCIAL REPORTS AND TIMELINESS OF AUDIT OPINIONS

All State entities and Audited subsidiaries of State entities are required to submit their financial statements to the Auditor-General within 45 days after the end of each financial year. For 30 June 2018 financial reporting, the 45 day deadline fell on Tuesday, 14 August 2018.

For 30 June 2018, 19 State entities failed to meet the submission deadline compared to seven entities the year before. The 2017-18 result was not directly comparable to 2016-17, due to more rigorous application of what constitutes a State entity under the Audit Act. The audits for 16 of these State entities have been, or are expected to be, dispensed with.

Our compliance with the requirement to complete audits of financial statements within 45 days of their receipt declined from 2016-17. Thirteen audits were completed outside the time required, compared to seven audits in 2016-17.

Financial statement audits of all State entities and Audited subsidiaries of State entities, excluding North East Care Inc., for the year ended 30 June 2018 were completed.

AUDIT OPINIONS ON FINANCIAL STATEMENTS



We issued unmodified audit opinions on all financial statement audits completed during the 30 June 2018 audit cycle, except for National Trust Australia (Tasmania) and King Island Council.

National Trust of Australia (Tasmania)	The Trust possessed certain heritage collections, but not all of these assets were recognised in the financial statements. Due to the nature of the assets, we were unable to quantify the financial effect of the unrecognised assets.
King Island Council	<p>Council's Property, plant and equipment included aerodrome infrastructure and road assets. These assets were measured at fair value in accordance with accounting standards. This required Council to carry out revaluations with sufficient regularity to ensure the carrying amount of these assets did not differ materially from that which would be determined using fair value at the end of the reporting period.</p> <p>Council had not undertaken revaluations of the aerodrome infrastructure or road assets since 30 June 2011 and 30 June 2012, respectively. It was assessed that due to Council failing to undertake revaluations with sufficient regularity, the fair value of the aerodrome infrastructure and road assets (and associated equity) were understated by \$1.33m and \$3.98m, respectively, at 30 June 2018.</p>

One of the unmodified audit opinions contained an emphasis of matter paragraph. We included the emphasis of matter paragraph to highlight matters, although appropriately presented or disclosed in the financial statements, we believed were important to bring to the users' attention so as to assist with their understanding of the financial statements. Including an emphasis of matter paragraph did not modify our audit opinion.

Tasmanian Public Finance Corporation	The emphasis of matter paragraph drew attention to a note in the financial statements which described the Corporation's application of Treasurer's Instruction GBE-08-52-09P in respect of the Mersey Community Hospital Fund (MCH Fund).
---	---

The audit of North East Care Inc. for the year ended 30 June 2018 had not been completed at the time of this Report.

FINDINGS FROM 30 JUNE 2018 AUDITS

2018		2017	
136	133	187	119
Audit matters raised ¹	Audit matters raised in prior periods assessed as unresolved	Audit matters raised ²	Audit matters raised in prior periods assessed as unresolved

1. 30 June 2018 audits.

2. 30 June 2017 and 31 December 2017 audits.

We report deficiencies in internal controls, accounting issues, matters of governance interest and unresolved issues identified during our audits to management and those charged with governance of State entities. We do this through management letters, which include our observations, related implications, recommendations and risk ratings. For the 2017-18 audit cycle:

- 136 matters were raised
- there were 11 high risk findings, 66 moderate risk findings and 59 low risk findings
- the majority of matters raised related to the valuation of non-current physical assets, corporate governance and information systems
- 43% of issues previously reported remained unresolved, which included two high risk issues that were over 24 months old.

PRIOR PERIOD ERRORS

For the 2017-18 audit cycle, 21 prior period errors across 16 entities were identified.

These prior period errors represented omissions or misstatements in the entities financial statements for one or more prior periods arising from a failure to use reliable information that was available when financial statements for those periods were finalised, and which could reasonably have been expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors included the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts.

Where prior period errors were identified and corrected, Australian Accounting Standards required the following disclosures to be included in the financial statements:

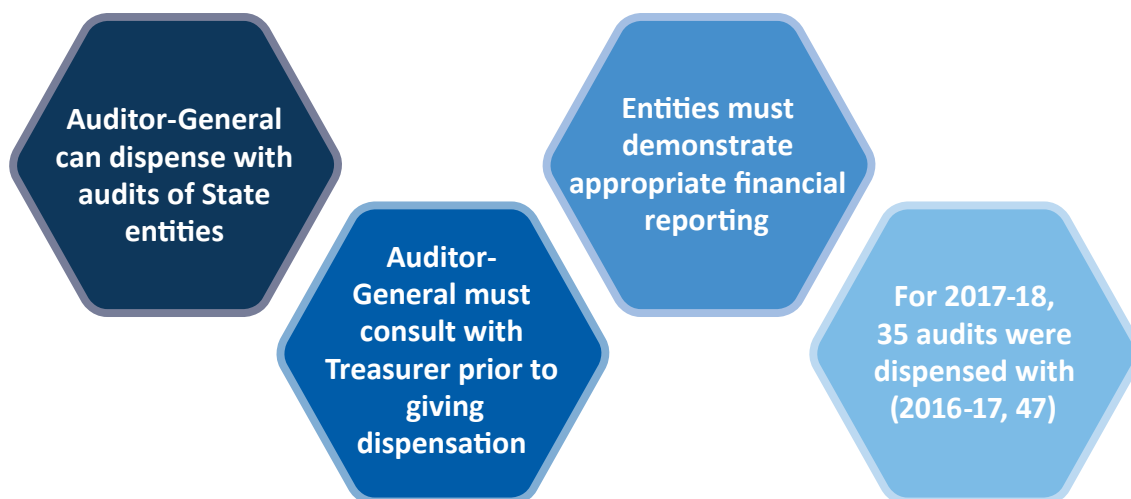
- (a) the nature of the prior period error
- (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected
- (c) the amount of the correction at the beginning of the earliest prior period presented.

Where retrospective restatement was impracticable for a particular prior period, the financial statements disclose the circumstances that led to the existence of that condition and a description of how and from when the error had been corrected.

REPORTING BY TASMANIAN PUBLIC SECTOR ENTITIES

As part of their operations, many State entities create subsidiaries to undertake some form of business on their behalf. The Audit Act is written so as to capture all known entity types created by government, royal prerogative or governed by those appointed by government, including State entities and their subsidiaries. The Audit Act establishes different financial reporting and audit obligations for State entities and Audited subsidiaries of State entities, and this volume explains the impact of these differences.

AUDIT DISPENSED WITH



The Auditor-General has the discretion under the Audit Act to dispense with certain audits if considered appropriate in the circumstances. The dispensation is subject to meeting one of the following conditions determined by the Auditor-General:

- the State entity must demonstrate that its financial reporting and auditing arrangements are appropriate. To satisfy this condition, the entity is required to submit financial statements to the Auditor-General each year. The financial statements are reviewed and, where necessary, feedback on information presented in the financial statements is provided to the entity
- the entity is a State entity controlled by another State entity and the financial transactions and balances of the controlled entity are subject to audit procedures as part of the group audit of the controlling entity.

It is important to note that dispensation of the audit does not limit any of the Auditor-General's functions or powers given under the Audit Act. Where the entity is of significant size or by its nature of particular public interest, it is unlikely a dispensation will be granted.

The Audit Act also requires the Auditor-General to consult with the Treasurer before exercising the power to dispense with audits.

For 30 June 2018, 35 audits had been dispensed with at the time of this Report.

BASIS FOR SETTING AUDIT FEES

Fees for financial audits are determined by the Auditor-General pursuant to Section 27 of the Audit Act. Fees are set for each State entity commensurate with the size, complexity and risks of the engagement. Charge rates for Tasmanian Audit Office audit staff are based on the principle of the Office being able to recover its costs of operation. Charge rates comprise two parts, direct salary cost and overhead recovery.

Where circumstances surrounding an audit engagement have materially changed, additional audit fees may be sought from the State entity.

Fees are primarily based on salary increases in the *2016-2018 Public Sector Union Wages Agreement* and as such, reflect the fact that employee costs are our largest cost category.

FINANCIAL STATEMENT AUDITS

The Auditor-General has the mandate to carry out audits of the financial statements of the Treasurer and of all Tasmanian State entities. The aim of an audit is to enhance the degree of confidence in the financial statements by expressing an opinion on whether they are presented fairly, or give a true and fair view, in accordance with the applicable financial reporting framework. We carried out 114 financial statement audits across four main sectors in the 30 June 2018 audit cycle.

The information provided in this Chapter summarises the financial audits we undertook under sections 16 and 18 of the Audit Act. Audits we undertook by arrangement under section 28 of the Audit Act are not included in this Chapter.



Note:

1. Including controlled or consolidated entities.

AUDIT PROCESS AND METHODOLOGY

Financial audits are performed in accordance with Australian Auditing Standards issued by the Australian Auditing and Assurance Standards Board using a risk-based approach. In conducting financial audits, we use an electronic financial audit toolset known as Integrated Public Sector Audit Methodology (IPSAM), which was specifically designed for the conduct of audits in the public sector environment.

Figure 1 below illustrates the major factors that govern the three elements of the audit process, the Accountability Framework, Audit Client Assertions, and Audit Framework.

Figure 1: Elements of the Audit Process



At the heart of the equation is the *Acceptable Audit Risk*. This is established by first analysing two inter-linked elements known as *Inherent Risk* and *Control Risk* as they apply to the organisation concerned. We are then able to assess the level of *Audit Detection Risk*, which is crucial in determining the most appropriate audit procedures.

We plan our audits based on our understanding of the entity, which involves assessing any risks that may significantly (materially) affect the entity's financial statements. This includes assessing the effectiveness of any internal controls the entity has in place which could prevent or detect and correct such risks.

We design and perform our audits to obtain sufficient, appropriate audit evidence that the assessed risks have been appropriately addressed and the prepared financial reports present fairly in accordance with the entity's financial reporting requirements. At the end of our audit, we issue an independent auditor's report containing our opinion on whether the financial statements present fairly the financial performance and financial position of the entity, and if they have been prepared in accordance with the entity's financial reporting requirements.

We also issue reports highlighting the internal control, accounting and other matters that came to our attention during the course of the audit to accountable authorities of State entities and Audited subsidiaries of State entities, and to the appropriate Minister.

SUBMISSION AND AUDIT OF FINANCIAL STATEMENTS

All State entities and Audited subsidiaries of State entities are required to submit their financial statements to the Auditor-General within 45 days after the end of each financial year. For 30 June 2018 financial reporting, the 45 day deadline fell on Tuesday, 14 August 2018.

The Auditor-General must then audit the financial statements and issue an audit report outlining compliance with relevant legislation and accounting standards within 45 days of their submission.

Volumes 1 - 3

Results of 30 June 2018 financial statements audits

State entities and Audited subsidiaries of State entities		
114* Financial statements submitted for audit	97% Financial statements submitted on time	88% Audits completed on time
Treasurer's Annual Financial Report		
Financial reports received 26 September 2018		
Audit reports issued 30 October 2018		

**Only relates to financial statements that were audited, does not include those that were dispensed with.*

For 2017-18, 19 State entities failed to meet with the submission deadline compared to seven entities the year before. The 2017-18 result is not directly comparable to 2016-17, due to more rigorous application of what constitutes a State entity under the Audit Act. The audits for 16 of these State entities have been, or are expected to be, dispensed with.

Prior to 2016-17, we required State entities to submit statements certified by the accountable authority. From 2016-17, we permitted State Entities to also submit financial statements certified by the Chief Financial Officer (or equivalent). This allowed the audit to be completed and clearance provided to the audit committee, if relevant, prior to certification by the accountable authority.

Financial Statements certified by

61
Management

52
Accountable Authority

Our compliance with the requirement to complete audits of financial statements within 45 days of their receipt declined from 2016-17. Thirteen audits were completed outside the time required, compared to seven audits in the 2016-17 audit cycle.

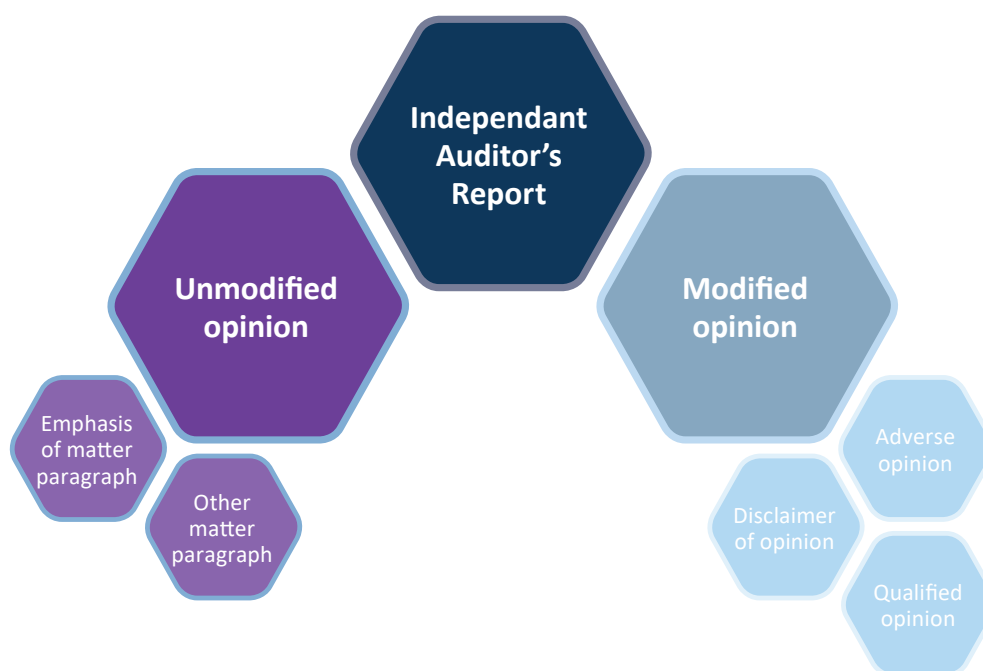
Financial statement audits of all State entities, excluding North East Care Inc., for the year ended 30 June 2018 had been completed at the time of this Report.

FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

The Auditor-General is required to issue an opinion on each financial statement audit under the Audit Act. Australian Auditing Standards prescribe the auditor's reporting responsibilities, including the responsibility to form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

An opinion may be either:

- unmodified, when the auditor concludes that the financial statements were prepared, in all material respects, in accordance with the applicable financial reporting framework
- modified, if the auditor concludes that the financial statements as a whole were not free from material misstatement or was unable to obtain sufficient appropriate audit evidence.



The auditor may communicate additional matters in the auditor's report while still expressing an unmodified opinion on the financial statements. The purpose of this is to draw the attention of the users to relevant information, which itself is not significant enough to result in a modified opinion.

Audit Opinions on Financial Statements



Unmodified audit opinions issued on financial statements

We issued unmodified audit opinions on all financial statement audits completed during the 30 June 2018 audit cycle, except for the National Trust Australia (Tasmania) and King Island Council. This gives the Parliament and Community assurance that the financial statements present fairly, in all material respects, the financial performance and position of State entities and were prepared in accordance with the relevant financial reporting frameworks.

2

Qualified opinions

We issue a qualified opinion when a specific part of the financial statements contains a material misstatement or we cannot obtain adequate evidence to support a material area, but rest of the financial statements are found to present a true and fair view, in accordance with accounting standards.

National Trust of Australia (Tasmania)	The Trust possessed certain heritage collections, but not all of these assets were recognised in the financial statements. Due to the nature of the assets, we were unable to quantify the financial effect of the unrecognised assets.
King Island Council	<p>Council's Property, plant and equipment included aerodrome infrastructure and road assets. These assets were measured at their fair value in accordance with accounting standards. This required Council to carry out revaluations with sufficient regularity to ensure the carrying amount of these assets did not differ materially from that which would be determined using fair value at the end of the reporting period.</p> <p>Council had not undertaken revaluations of the aerodrome infrastructure or road assets since 30 June 2011 and 30 June 2012, respectively. It was assessed that due to Council failing to undertake revaluations with sufficient regularity, the fair value of the aerodrome infrastructure and road assets (and associated equity) were understated by \$1.33m and \$3.98m, respectively, at 30 June 2018.</p>

1

Emphasis of matter paragraph

One of the unmodified audit opinions contained an emphasis of matter paragraph. We included the emphasis of matter paragraph to highlight matters, although appropriately presented or disclosed in the financial statements, we believed were important to bring to the users' attention so as to assist with their understanding of the financial statements. Including an emphasis of matter paragraph did not modify our audit opinion.

Tasmanian Public Finance Corporation	The emphasis of matter paragraph drew attention to a note in the financial statement which described the Corporation's application of Treasurer's Instruction GBE-08-52-09P in respect of the MCH Fund.
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AUDIT FINDINGS

2018		2017	
136¹	133	187²	119
Audit matters raised	Audit matters raised in prior periods assessed as unresolved	Audit matters raised	Audit matters raised in prior periods assessed as unresolved

Notes:

1. 30 June 2018 audits.
2. 30 June 2017 and 31 December 2017 audits.

All deficiencies or weaknesses in internal control and other accounting or financial issues identified during audits were communicated to management at an appropriate level of responsibility. Significant matters were detailed in written reports, which included our recommendations for improvement and management responses. The reports were then communicated to those charged with governance, for example the Secretary, Chairperson of the Board or Mayor, with a copy sent to the responsible Minister.

We categorise each matter as high, moderate or low risk, depending on its potential impact, as shown below:

Risk category	Audit impact	Management action required
High	<p>Matters categorised as high risk pose a significant business or financial risk to the entity and have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency.</p> <p>High risk findings represent:</p> <ul style="list-style-type: none"> • a control weakness which could have or is having a significant adverse effect on the ability to achieve process objectives and comply with relevant legislation • a material misstatement in the financial report is likely to occur or has already occurred. 	<p>Requires immediate management intervention with a detailed action plan to be implemented within one month.</p> <p>Requires management to correct the material misstatement in the financial report to avoid a modified audit opinion.</p>
Moderate	<p>Moderate risk findings are matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year, matters that may escalate to high risk if not addressed promptly or low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.</p> <p>Moderate risk findings represent:</p> <ul style="list-style-type: none"> • a systemic control weakness which could have or is having a moderate adverse effect on the ability to achieve process objectives and comply with relevant legislation • a misstatement in the financial report that is not material and has occurred. 	<p>Requires prompt management intervention with a detailed action plan implemented within three to six months</p>

Risk category	Audit impact	Management action required
Low	<p>Matters categorised as low risk are isolated, non-systemic or procedural in nature and reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.</p> <p>Low risk findings represent</p> <ul style="list-style-type: none"> an isolated or non-systemic control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation a misstatement in the financial report that is likely to occur but is not expected to be material an opportunity to improve an existing process or internal control. 	Requires management intervention with a detailed action plan implemented within six to 12 months.

Figure 2: 2018 Audit Findings by area

	High Risk	Moderate Risk	Low Risk	Total
Assets	3	14	7	24
IT Security	0	6	8	14
Expenditure	1	4	3	8
Payroll	0	3	15	18
Revenue/Debtors	0	2	3	5
Other	7	37	23	67
Total	11	66	59	136

High risk findings were predominantly related to asset valuations. This reflected the high dollar values involved and the inherent subjectivity involved in estimating values and useful lives of assets. Other high risk findings related to review of journal adjustments, financial report preparation, lack of segregation of duties across a number of financial processes and a shortage of senior accounting staff.

Moderate risk findings covered a range of matters including; corporate governance, information systems, internal controls and accounting issues. Corporate governance type issues, included in the Other classification above, covered probity issues around attractive items, fuel and credit cards together with legislative compliance matters, such as outdated policies and procedures. Provision for rehabilitation related findings are also in the Other classification above. Account security and software access controls dominated findings in the Information Technology Security area. We also found issues with excessive leave and breakdowns in the design and implementation of key internal controls in payroll, payments and receipting systems. Findings related to assets in this risk category had lesser significant impact on financial results than those classified as high risk.

Low risk findings were found across all areas but were generally considered to be isolated, non-systemic or procedural in nature. In some cases they represented opportunities to improve existing processes or further strengthen existing controls, particularly in payroll.

High risk issues were mostly prevalent in the Local Government sector. This is consistent with past years and the issues primarily related to asset valuations.

Figure 3: 2018 Audit Findings by sector

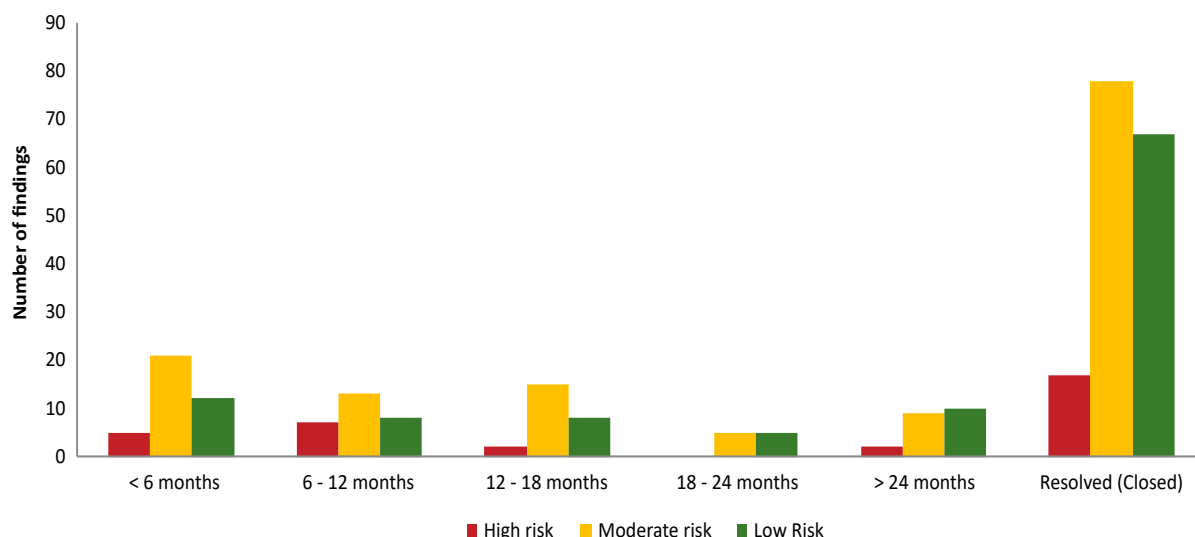
	High Risk	Moderate Risk	Low Risk	Total
General Government Sector	1	13	14	28
Government businesses	3	16	14	33
Local government	7	35	27	69
Other	0	2	4	6
Total	11	66	59	136

43%

Issues previously reported remained unresolved

All unresolved matters reported to management in prior years were considered during our assessment of audit risks for 30 June 2018 audits. In completing our audits, we undertook audit procedures to confirm whether those issues had been resolved or satisfactory addressed by management.

Figure 4: Previously reported findings (yet to be resolved from date corrective action was due) aging analysis



Efficient resolution of audit findings is crucial to reduce an entity's exposure to risk. Over 50% of issues previously reported were resolved in 2017-18. There were only four high risk issues yet to be resolved that were over 12 months old, two of which were over 24 months old. These related to unrecorded heritage collection assets held by National Trust of Australia (Tasmania) and the reconciliation of ledger populations to the trial balance and financial report by Waratah Wynyard Council.

Figure 5: Prior year unresolved Audit Findings by area

	High Risk	Moderate Risk	Low Risk	Total
Assets	8	17	12	37
IT Security	0	14	10	24
Expenditure	1	5	1	7
Payroll	0	12	10	22
Revenue/Debtors	2	3	2	7
Other	5	19	12	36
Total	16	70	47	133

High risk findings that were previously reported but not yet resolved largely related to asset valuations. Other high risk findings related to bank reconciliations, segregation of duties, revenue reporting, documentation and various internal processes.

Unresolved Moderate risk and Low risk findings covered a broad range of matters. The majority of outstanding prior year matters related to information technology security, many of which had extended lead times for resolution, and payroll.

Figure 6: Prior year unresolved Audit Findings by sector

	High Risk	Moderate Risk	Low Risk	Total
General Government Sector	6	27	14	47
Government businesses	2	13	9	24
Local government	7	30	24	61
Other	1	0	0	1
Total	16	70	47	133

The local government sector had the largest number of prior year findings outstanding as well as the largest number of high risk findings. These high risk findings predominantly related to asset valuations. The general government sector had six high risk findings, the majority of which also related to asset valuations.

PRIOR PERIOD ERRORS

During the 2018 audit cycle, 21 prior period errors were disclosed in the financial statements of 16 of the 114 entities subject to audit.

These prior period errors represented omissions or misstatements in the financial statements for one or more prior periods arising from a failure to use reliable information that was available when the financial statements for those periods were finalised, and which could reasonably have been expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors included the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts.

Where prior period errors were identified and corrected, Australian Accounting Standards required the following disclosures to be included in the financial statements:

- (a) the nature of the prior period error
- (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected
- (c) the amount of the correction at the beginning of the earliest prior period presented.

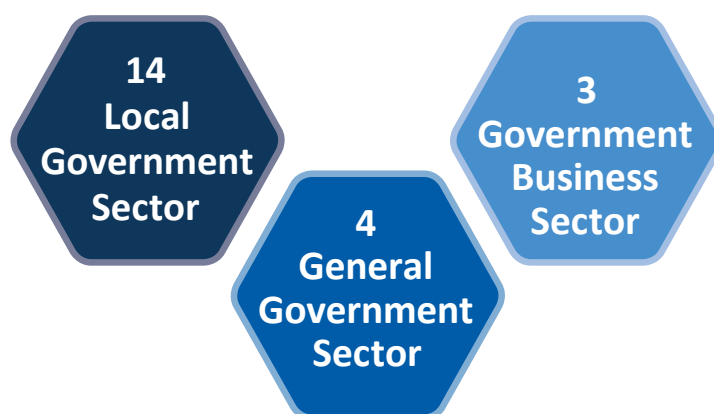
Where retrospective restatement was impracticable for a particular prior period, the financial statements disclose the circumstances that led to the existence of that condition and a description of how and from when the error had been corrected.

Audit procedures undertaken to assess the appropriateness of prior period errors included:

- inspection and testing of evidence leading to the occurrence and quantification of the error
- consideration of the size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial report as a whole
- discussions with management to confirm the appropriateness of the accounting treatment and disclosures to be made in the financial statements
- an assessment by our internal technical committee for review of the proposed accounting treatment and disclosures.

Where material errors impacted a number of previous financial results and balances, a restated third statement of financial position was required to be disclosed. Of the 16 entities who disclosed prior period errors, two prepared and disclosed a third statement of financial position in their financial statements.

Prior period errors – by sector

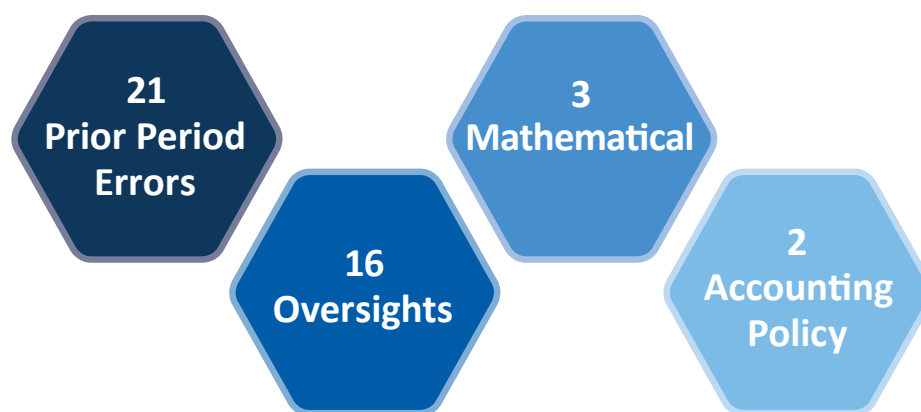


The majority of errors occurred in the Local Government sector, with the ten of these related to assets.

14 of the 21 errors were discovered by entities themselves, 12 of which related to assets. The remaining seven errors were identified by the audit team.

Further detail of the nature of these prior period errors is provided below.

Prior Period Errors – by nature



Given the size, nature and complexity of assets recognised in entity statements of financial position, it is not surprising that most prior period errors arose in this area. These included valuation errors (such as, miscalculation of accumulated depreciation, use of inappropriate unit rates and incorrect indexation methods), found assets, errors within asset registers and assets included in work in progress commissioned with no depreciation expense recognised.

Other valuation related errors included incorrect valuation of financial liabilities and errors in the valuation of rehabilitation and restoration provisions.

The increase in prior period errors in 2018 indicated a prevalence of inaccurate, incomplete records or lack of client review and could raise questions about the thoroughness of the financial statement preparation and audit process.

Analysis of the errors indicated the circumstances that gave rise to the errors were substantively unique for each entity. This uniqueness makes it difficult to predict the likelihood of other undetected errors across entities. However, this analysis will assist in identifying future audit focus areas and will enhance client awareness of potential omissions or misstatements.

Particulars of the 21 prior period errors that were reported in the financial statements of entities for 2017-18 are disclosed below.

Sixteen oversight errors comprised:

5

Found Assets

Local Government	A council identified \$0.85m in road and bridge assets following a revaluation that occurred during the year. These were assets which had not previously been recorded or were recorded without a value.
Local Government	A council recorded \$0.62m in carparks, car park spray seals and other items that had not previously been recognised. The assets were included as additions in the asset summary for roads and bridges.
Local Government	A council undertook a full revaluation during the year where it discovered that there were assets recorded on the asset register which council did not own. Council also identified land assets not included in council's asset register.
Local Government	A council undertook an inspection of its stormwater network and identified a number of stormwater assets that it controlled but which were not recorded in the asset register. The council also identified road, park and office assets that had not been included in council's asset register.
General Government	A general government sector entity compared Land Information System Tasmania information to the fixed asset register and identified land and buildings not previously included in the asset register.

3

Asset Register

State Owned Company	A state owned company disposed of assets in 2014-15 and 2016-17 but had not removed them from the asset register. The correction reversed depreciation expense and asset revaluations that had been recognised subsequent to the date of disposal of the assets.
Local Government	A council migrated from three asset registers (financial, engineering and maintenance) in the prior year to a single asset register. This gave council more visibility over smaller asset segments which, when used as part of the revaluation, resulted in a decrease in the length of roads, an increase in length of pipes and identification of different pavement and seal types on their roads. This resulted in a number of prior period adjustments to the values for these assets.
General Government	Property, plant and equipment of a general government sector entity had been understated, resulting in prior period adjustments to the carrying value of rental dwellings and capital work in progress. The correction also required an adjustment to the depreciation expense.

2

Work in Progress

Local Government	A council reallocated assets, which had been commissioned prior to 1 July 2017, from work in progress to the fixed asset register. This resulted in prior period adjustments to depreciation, the carrying amount of assets and work in progress.
Local Government	A local government entity failed to recognise depreciation in earlier financial years for assets that had been commissioned and operating, but which were still recorded in work in progress as at 30 June 2017.

2

Asset Revaluations

General Government	A subsidiary of a State entity recognised a revaluation adjustment of \$0.30m in their financial statements in 2016-17 which was not recognised in the parent entity's financial statements in that year. The adjustment was recognised as a prior period error in the parent entity's 2017-18 financial statements.
Local Government	A council undertook a revaluation of their land assets in 2016-17 and again in 2017-18, indexing all land using the Valuer-General's Valuation Adjustment Factors. In 2017-18, it was discovered that land under roads was not included in the 2016-17 revaluation. Council considered that, as the revaluation cycle for both land and land under roads fell within the same periods, they would revalue land under roads in the same way. A prior period error was recognised for land under roads not revalued in 2016-17.

1

Value of Derivatives

State Owned Company	A state owned company failed to account for the price and extension of a financial instrument derivative contract in its valuation model.
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1

Equity Investments

General Government	A general government sector entity failed to remove investments that had been disposed of in a prior financial year from the carrying value of investment assets.
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1

Accounting Treatment

Local Government	Following an internal audit of parking processes and practices, which included the billing and collection of infringements, a council identified impaired debts relating to earlier financial years which had not been lodged with the Monetary Penalties Enforcement Scheme and which should have been impaired in those earlier financial years.
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1

Site Rehabilitation and Restoration

Local Government	A council recognised a prior period error relating to its landfill operations attributable to an over-provision for the rehabilitation of a landfill site, due to a mistake in identifying the stages of landfill activities that needed to be provided for, and information that was available not being taken into account in the determination of the provision for the rehabilitation of the landfill site in 2016-17.
-------------------------	--

Three mathematical errors comprised:

2

Asset Revaluation

Local Government	A council performed a revaluation on its roads and land improvements in 2016-17 which resulted in an increase in the current replacement cost of assets. It was later identified that accumulated depreciation for some road and land improvement assets exceeded their useful lives. A prior period error was recognised for the adjustments made to accumulated depreciation.
Local Government	During the 2017-18 financial year, a council received a revised 2016-17 road valuation report from an external expert which rectified an error arising from use of incorrect unit rates for road pavement sub-base assets. A prior period error adjustment was made to reduce the overstated carrying value of roads.

1

Site Rehabilitation and Restoration

Local Government	A council identified an error in the calculation of its provision for landfill site aftercare costs. This arose from a spreadsheet formula error whereby a number of annual payments were discounted twice, understating the provision and associated asset. The formula error dated back to 2013-14, resulting in a prior period error restatement from 1 July 2016.
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Two accounting policy errors comprised:

2

Accounting Treatment

State Owned Company	In undertaking a review of lease arrangements in preparation for the new leasing standard, a state owned company identified an arrangement had been incorrectly designated as an operating lease rather than as a finance lease under AASB 117 <i>Leases</i> . A restatement was made with effect from 1 July 2016.
Local Government	Prior to 2017-18, an entity was accounted for as a subsidiary of a council in accordance with AASB 10 <i>Consolidated financial statements</i> . Following a review of the arrangement, it was concluded that council did not have control of the entity's operations and the arrangement was a joint venture. A prior period error was recognised for the change in accounting treatment from consolidation (subsidiary) to equity accounting (joint venture).

REPORTING BY TASMANIAN PUBLIC SECTOR ENTITIES

INTRODUCTION

Within Tasmania there are many different types of public and private sector entities carrying out services to the community. Public sector entities are created in many varied ways, but in the main, usually by way of some form of legislation, be it general, sector specific, or entity specific. While these forms can be viewed loosely as “Government” created entities, there are also situations where private sector entities, perhaps originally established as companies or incorporated bodies, become public sector entities whereby their operations become subordinate to governance by another public sector entity.

All public sector entities, irrespective of their origin, bear a governance responsibility to report. For most, it requires the annual reporting and tabling of their outcomes of operations in Parliament by way of an annual report or financial statements. For others, it will be to controlling bodies or those charged with governance oversight (e.g. a Minister). For many entities, reporting functions are incorporated in the written law under which they operate.

Increasingly in recent years there have been numerous amendments to many acts of Parliament removing financial reporting references. This is not to say that an entity no longer needs to report, but rather it is an administrative approach. It relies on an awareness of where applicable reporting requirements are instead located. For financial reporting in Tasmania, this is the Audit Act. The effect of centralising reporting obligations in the Audit Act has been to remove inconsistencies and shortfalls in some acts and ensure a consistent framework across all Tasmanian public sector entities. The approach also holds administrative benefits in that a change in one act, need not result in the requirement to make amendments to all the other acts that would be affected. It is reporting under the Audit Act that this Chapter further explores.

THE REQUIREMENT TO REPORT

Each State entity, or Audited subsidiary of a State entity, is required to have an “accountable authority” (section 14). The accountable authority is the person or body (however described) overseeing the governance of an entity, that is, having the general direction and control of, and all responsibility for, the operations of the entity (section 14(3) and 14(4)).

Under the Audit Act, an accountable authority is required to prepare and forward to the Auditor-General, as soon as possible and within 45 days after the end of the financial year, a copy of their financial statements which are complete in all material respects (section 17(1)). Unless otherwise specified, the financial statements are to be prepared in accordance with accounting standards and other requirements issued by the Australian Accounting Standards Board (section 17(4)).

Following the submission of financial statements, they are assessed by the Auditor-General to determine whether an audit is required. Where an audit is carried out, the Auditor-General is required to prepare and sign an opinion on an audit carried in accordance with requirements determined by the Australian Auditing and Assurance Standards (section 19(1)). The audit opinion is required to be finalised within 45 days of receiving financial statements from the accountable authority (section 19(3)). Where financial statements of the entity are to be included in an Annual Report to be tabled in Parliament, a copy of the opinion is also provided to the relevant Minister (section 19(4)). Where there are audit findings, these are communicated to accountable authority and also the appropriate Minister (section 19(2)).

WHAT IS A STATE ENTITY?

What constitutes a State entity can be confusing. The Audit Act is written so as to capture all known entity types created by government, royal prerogative or governed by those appointed by government. Under the Audit Act a State entity is defined as the follow categories:

State entity includes –

- (a) an agency; and
- (b) a council; and

- (c) a Government Business Enterprise; and
- (d) a State-owned company; and
- (e) a State authority that is not a Government Business Enterprise; and
- (f) the council, board, trust or trustees, or other governing body (however designated) of, or for, a corporation, body of persons or institution, that is or are appointed by the Governor or a Minister of the Crown; and
- (g) a body or authority referred to in section 21, established under section 29 or 30, or continued under section 326, of the *Local Government Act 1993*; and
- (h) the Corporation incorporated under section 5 of the *Water and Sewerage Corporation Act 2012*; and
- (i) a body or authority in respect of which the Treasurer has made a determination under section 32A.

Dealing with these categories in turn provides a clear understanding of the entity types these categories are designed to include.

(a) an Agency

An agency includes all the Government departments as noted in the *Financial Management and Audit Act 1990*, as specified in Column 1 of Schedule 1. While this would appear straight forward, it also includes a few other entities as noted in Schedule 1, being the Integrity Commission, Tourism Tasmania and the Tasmanian Audit Office.

(b) a Council

A council means a local government council within the meaning of the *Local Government Act 1993*. For example, Hobart City Council. There are currently 29 councils in Tasmania.

(c) a Government Business Enterprise

A GBE means a statutory authority specified in Schedule 1 to the *Government Business Enterprises Act 1995*. For example, Hydro. There are currently six GBEs in Tasmania.

(d) a State-owned company

In Australia, companies are incorporated under the Commonwealth's *Corporations Act 2001* (Corporations Act). A State-owned company is any company that is controlled by the Tasmanian government (or Crown), a State authority or another company which is itself controlled by the Crown or a State authority. For example, Aurora Energy Pty Ltd. There are currently eight State-owned companies controlled by the Crown.

(e) a State authority that is not a Government Business Enterprise

What constitutes a State authority is quite broad. Any entity that is not captured by one of the other more specific categories, will most likely be a State authority.

Under the Audit Act a:

"State authority means a body or authority, whether incorporated or not, that is established or constituted under a written law or under the royal prerogative, being a body or authority which, or of which the governing authority, wholly or partly comprises a person or persons appointed by the Governor, a Minister or another State authority, but does not include an agency." (section 4)

This definition is quite all-encompassing, not only capturing many larger specifically created public sector entities, but also the many smaller trusts, boards or management authorities.

Companies, that are not a State-owned company, are also created under a written law being the Corporations Act and therefore also State Authorities if the directors are appointed by the Governor, a Minister or another State authority. This would apply to any subsidiary company of a parent State entity. This is further discussed below in the section on *What about a subsidiary of a State entity?* Although a GBE would also be a State Authority, it is specifically excluded from this category by paragraph (e) in the definition of a State entity.

(f) the council, board, trust or trustees, or other governing body (however designated) of, or for, a corporation, body of persons or institution, that is or are appointed by the Governor or a Minister of the Crown

This category applies to an entity that is not a State authority, where those in a governance role are appointed by the Governor or a Minister. An example would be the Ministerial appointment of the Director of Inland Fisheries for the Inland Fisheries Service.

(g) a body or authority referred to in section 21, established under section 29 or 30, or continued under section 326, of the Local Government Act 1993

This category provides for the inclusion of any single authority, joint authority or controlling authority within the meaning of the *Local Government Act 1993*. Effectively it provides for the inclusion of any entities created by councils via the *Local Government Act 1993*. For example, the Local Government Association of Tasmania.

(h) the Corporation incorporated under section 5 of the Water and Sewerage Corporation Act 2012

In Tasmania we currently have just one Water and Sewerage Corporation, being TasWater. Originally there were four. When initially established, ownership of all the companies was held by the Tasmania's 29 local councils. This however, did not meet the requirements of the previous categories. Even though water and sewerage companies are created under a written law, an entity that is controlled by councils, does not meet the requirements of a State authority or that of a State-owned Company. This category was specifically added with the creation of the *Water and Sewerage Corporation Act 2012* to include entities created under that act.

(i) a body or authority in respect of which the Treasurer has made a determination under section 32A

In the situation that a body or authority does not meet one of the previously listed categories, the Treasurer, in consultation with the Auditor-General, may make a determination that it is a State Entity. This last category provides a safety net to capture any unforeseen situations.

WHAT ABOUT A SUBSIDIARY OF A STATE ENTITY?

As part of their operations, many State entities create subsidiaries to undertake some form of business on their behalf. This is not unusual and not confined to one particular sector. In Tasmania there are numerous subsidiaries and these are primarily created by State-owned Companies, GBEs, Departments, Councils and Local Government Authorities. At the time of writing Hydro, for example, had the most subsidiary entities with 16 subsidiaries. This included subsidiaries of subsidiaries.

Under the Audit Act:

subsidiary, of a State entity, means –

- (a) a company or body formed or incorporated under the Corporations Act or formed or incorporated under equivalent laws of a place other than a State or Territory –
 - (i) in respect of which the State entity has the capacity to control decision making, directly or indirectly, in relation to the financial and operating policies of the company or body; and
 - (ii) that is not itself a State entity; or
- (b) a body, trust or other entity formed under written law or under equivalent laws of the Commonwealth or a State or Territory of the Commonwealth –
 - (i) in respect of which the State entity has the capacity to control decision making, directly or indirectly, in relation to the financial and operating policies of the body, trust or other entity; and
 - (ii) that is not itself a State entity; or
- (c) a body that is declared under an Act to be a subsidiary of a State entity and is not itself a State entity; or

- (d) a body that is determined by the Treasurer, by written notice given to the State entity, to be a subsidiary of the State entity.

The effect of paragraphs (a)(ii), (b)(ii) and the latter part of (c) means that if the entity happens to be a State entity in its own right, it will not be a subsidiary of a State entity for the purposes of reporting under the Audit Act, regardless of the relationship it has with the parent State entity. The same applies to a body, trust or other entity formed under written law or under equivalent laws of the Commonwealth or a State or Territory of the Commonwealth.

The only exceptions provided in the Audit Act are where the body is declared under an Act to be a subsidiary of a State entity and is not itself a State entity, or it is determined by the Treasurer, by written notice given to the State entity, to be a subsidiary of the State entity (section 4). These exceptions are considered rare and it is our understanding that they have yet to be applied.

As a consequence, the vast majority of entities that would be generally be termed by the nature of their arrangement as subsidiaries to their parent entity, are not defined as subsidiaries under the Audit Act, but rather State entities in their own right and, therefore, must submit financial statements to the Auditor-General annually.

AUDITS OF SUBSIDIARIES OF STATE ENTITIES

Under the Audit Act (section 21(1)), the accountable authority of each State entity is to advise the Auditor-General, in writing, before the end of the relevant financial year of all the subsidiaries of that State entity. This is to enable the Auditor-General to assess, determine and co-ordinate auditing requirements.

If the entity is a “subsidiary” as determined under section 4 of the Audit Act, as previously discussed, the Audit Act provides that the Auditor-General is the auditor unless the Auditor-General determines otherwise (section 21(2)).

Where the Auditor-General has not made a determination that he is not the auditor, then the subsidiary is deemed to be an “audited subsidiary of a State entity” (section 4) and the accountable authority for the entity must prepare and forward to the Auditor-General, as soon as possible and within 45 days after the end of the financial year, a copy of their financial statements which are complete in all material respects. The Auditor-General must then conduct an audit on those financial statements in accordance with the requirements in section 19 of the Audit Act.

The Auditor-General has determined that he is not the auditor of the following foreign subsidiaries controlled by Hydro-Electric Corporation:

- Hydro Tasmania Consulting India Private Limited
- Hydro Tasmania South Africa (Pty) Ltd
- Hydro Tasmania Neusberg (Pty) Ltd.

The financial results of these foreign subsidiaries are subject to audit procedures as part of the group audit of Hydro-Electric Corporation.

AUDITS OF RELATED ENTITIES

In a similar manner to subsidiary entities, accountable authorities are required to notify the Auditor-General in writing, if its State entity performs any of its functions in one or more of the following ways:

- (a) in partnership or jointly with another person or body; or
- (b) through the instrumentality of another person or body; or
- (c) by means of a trust (section 22).

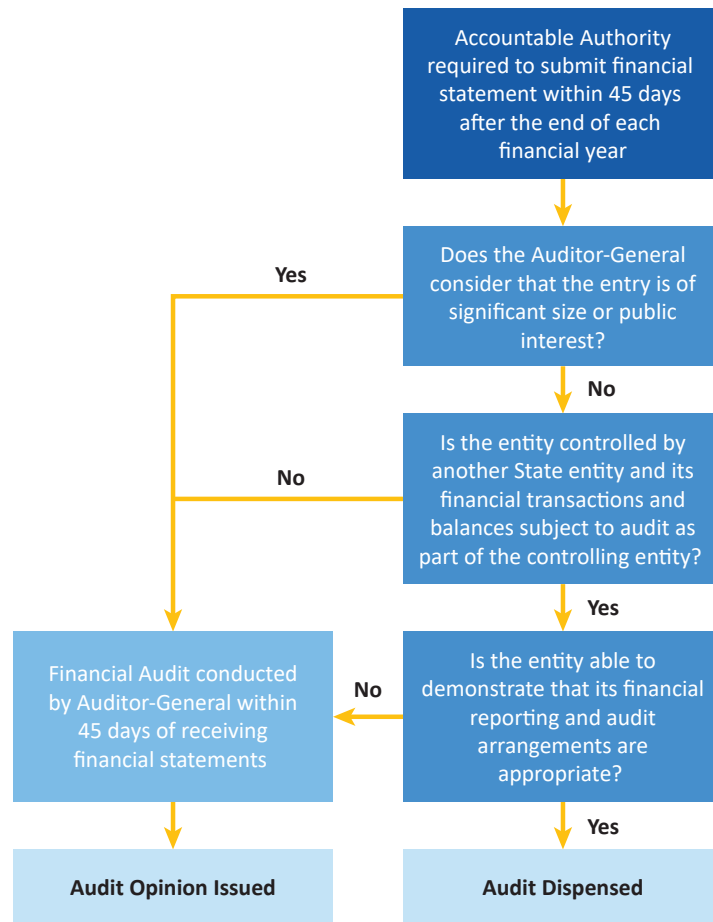
Once identified an assessment is made to determine if the related entity is a State entity.

THE STATE ENTITY REPORTING PROCESS

The reporting process for an Accountable Authority is illustrated in Figure 7.

The dispensation of audits is discussed further in the following Chapter on Audits Dispensed With.

Figure 7: Reporting flowchart for a State entity and Audited subsidiary of a State entity



FINANCIAL STATEMENT SUBMISSION REQUIREMENTS

In consideration of the ever increasing pressure on entities in completing financial statements within the 45 days required under the Audit Act, and to alleviate the need for financial statements to be re-signed by the accountable authority following amendments to them after their initial submission, we provide an option for management certification in the submission financial statements by 14 August each year. Entities that have established procedures in place and are content with their existing approach need not change.

Under section 17 of the Audit Act, statements are required to be:

- submitted within 45 days of the end of the financial year
- complete in all material respects
- signed and dated by the accountable authority, for example Head of Agency, Board, General Manager.

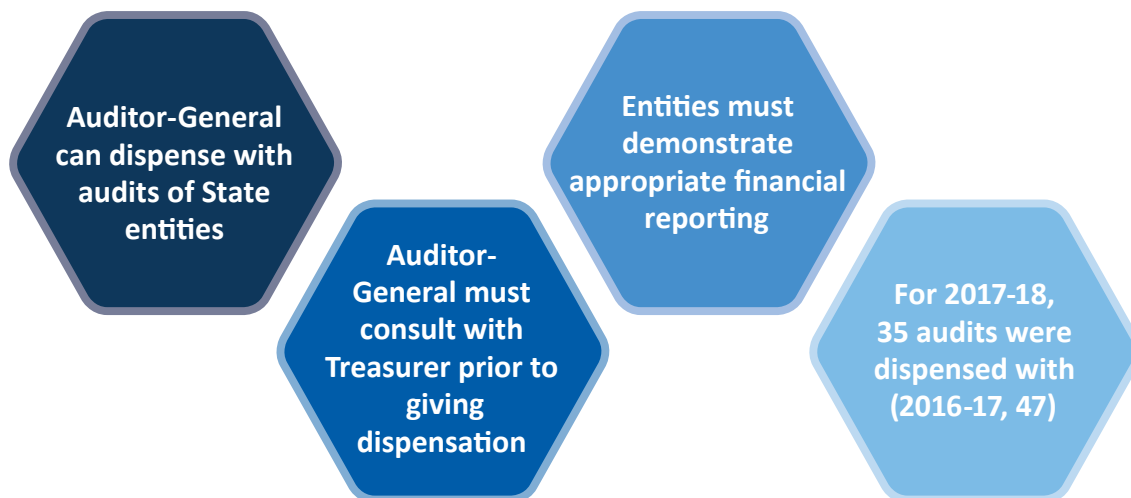
Under the management certification option, entities initially submit financial statements accompanied by a management certification, signed by a suitably senior finance officer responsible for financial reporting, (such as the Chief Financial Officer or equivalent). Mandatory wording is required for the management certification to be submitted with the financial statements. This must be accompanied by a Financial Statements Preparation and Submission Checklist. Both of these are available under the Resources tab on our website (links are below the heading 'Client Reference Information').

The financial statements are still required to be complete in all material respects and must be submitted within 45 days of the end of the financial year.

Following the completion of our audit and before the audit opinion is issued, the financial statements and management representation letter, will still need be signed and dated by the accountable authority.

AUDITS DISPENSED WITH

SNAPSHOT



INTRODUCTION

The Auditor-General has the discretion under the Audit Act to dispense with certain audits if considered appropriate in the circumstances. The dispensation is subject to meeting one of the following conditions determined by the Auditor-General:

1. The State entity must demonstrate to us that its financial reporting and auditing arrangements are appropriate. To satisfy this condition, the entity is required to submit their audited financial statements to the Auditor-General each year. The financial statements are reviewed and, where necessary, feedback on information presented in the financial statements is provided to the entity.
2. The entity is a State entity controlled by another State entity and the financial transactions and balances of the controlled entity are subject to audit procedures as part of the group audit of the controlling entity.

It is important to note that dispensation of the audit does not limit any of the Auditor-General's functions or powers given under the Audit Act. Where the entity is of significant size or by its nature of particular public interest, it is unlikely a dispensation will be granted.

The Audit Act also requires the Auditor-General to consult with the Treasurer before exercising the power to dispense with audits. Following consultation with the Treasurer, the audits of the annual financial statements of the following specific audits or categories of audits were dispensed with:

Controlled Subsidiaries – Year Ended 30 June 2018 (controlling entity shown in brackets)

- AETV Pty Ltd (Hydro Tasmania)
- Bell Bay Power Pty Ltd (Hydro Tasmania)
- Bell Bay Three Pty Ltd (Hydro Tasmania)
- Flinders Island Ports Corporation Pty Ltd (Tasmanian Ports Corporation Pty Ltd)
- FortyTwo24 Pty (Formally known as Auracom Pty Ltd) (Tasmanian Networks Pty Ltd)
- Geeveston Town Hall Company Ltd (Huon Valley Council)
- Heemskirk Holdings Pty Ltd (Hydro Tasmania)
- Heritage Building Solutions Pty Ltd (Southern Midlands Council)

- Heritage Education & Skills Centre Pty Ltd (Southern Midlands Council)
- HT Wind Developments Pty Ltd (Hydro Tasmania)
- HT Wind New Zealand Pty Ltd (Hydro Tasmania)
- HT Wind Operations Pty Ltd (Hydro Tasmania)
- Hydro Tasmania Consulting (Holding) Pty Ltd (Hydro Tasmania)
- Kingborough Waste Services Pty Ltd (Kingborough Council)
- King Island Ports Corporation Pty Ltd (Tasmanian Ports Corporation Pty Ltd)
- Lofty Ranges Power Pty Ltd (Hydro Tasmania)
- Maidstone Park Management Controlling Authority (Devonport City Council)
- Metro Coaches (Tas) Pty Ltd (Metro Tasmania Pty Ltd)
- Newood Energy Pty Ltd (Newood Holdings Pty Ltd)
- Newood Huon Pty Ltd (Newood Holdings Pty Ltd)
- Newood Smithton Pty Ltd (Newood Holdings Pty Ltd)
- Office of the Education Registrar (Department of Education)
- palawa Enterprise Trust (Aboriginal Land Council of Tasmania)
- RE Storage Project Holdings Pty Ltd (Hydro Tasmania)
- TasNetworks Holdings Pty Ltd (Tasmanian Networks Pty Ltd)
- Woolnorth Bluff Point Holdings Pty Ltd (Hydro Tasmania)
- Woolnorth Studland Bay Holdings Pty Ltd (Hydro Tasmania).

Other Boards and Authorities – Year Ended 30 June 2018

- Tasmanian Pharmacy Authority
- Tasmanian Timber Promotion Board.

Drainage Trusts – Year Ended 30 June 2018

- Egg Lagoon Drainage Trust
- Elizabeth Macquarie Irrigation Trust
- Forthside Irrigation Water Trust
- Lake No Where Else-White Hawk Creek - Irrigation Water Trust
- Mowbray Swamp Drainage Trust
- Richmond Irrigation Trust.

ENTITIES WHERE DISPENSATION CONDITIONS ARE NOT MET

As indicated in the introductory section of this Chapter, audits are dispensed with on the condition that the entity must demonstrate to the Office that its financial reporting and auditing arrangements are appropriate. To satisfy this condition, the dispensed with audit entities are required to submit their audited financial statements to the Office each year.

Where an accountable authority fails to comply with the requirement to submit statements they may be guilty of an offence under the Audit Act and liable to a fine. The Auditor-General may also advise the appropriate Minister of the situation and, where deemed appropriate, consider recommend appropriate actions including dissolution.

BASIS FOR SETTING FEES

BACKGROUND

Section 27 of the Audit Act provides that:

- “(1) The Auditor-General is to determine whether a fee is to be charged for an audit carried out by the Auditor-General under this Division and, if so –*
- (a) the amount of that fee; and*
 - (b) the accountable authority liable to pay that fee.”*

In relation to the tabling of Auditor-General’s reports on audits of the financial statements of State entities the Audit Act also requires the following at section 29(3):

- “(3) A report under subsection (1) is to describe the basis on which audit fees are calculated.”*

To comply with section 29(3), the basis for setting audit fees for conducting audits of the financial statements of State Entities is detailed in this Chapter. Audit fees are not charged for performance audits, compliance audits or investigations.

BASIS ON WHICH AUDIT FEES ARE CALCULATED

The Chapter explains the fee setting process for individual State entities, including:

- the specific factors taken into account in proposing the fee (particularly the risk assessment)
- the assumptions upon which the fee is based in terms of, for example, the standard of the entity’s control environment, coverage of internal audit, quality of working papers and so on
- what is included in the fee and what is not included
- processes for agreeing additional fees if circumstances change or the assumptions upon which the fee is based are not met.

DETERMINATION

A matrix (audit fee scale) has been developed to provide a guide for determining the expected time to be taken on an audit. The scales are based on the following key variables:

Size of the entity based on its expected gross turnover

Size of the entity is used to determine the base amount of time required to conduct the audit. Turnover was based on the client’s actual income and expenditure for the preceding financial year, adjusted for any known factors (Fixed element).

Risk and complexity profiles for each entity

These profiles are determined by our staff and consider the corporate structure, complexity of systems, operations and financial statement reporting requirements. The profile bands applied range from 40 % below to 40 % above the base time (Variable element).

The fee scales take account of:

- changes to Australian Auditing or Accounting Standards
- in some cases, particularly audits returning from contract, a change in scope of work being performed in line with our audit approach whereby selected probity matters will be considered during the course of all audits.

Fee scales are as follow:

Turnover*	Base Hours	Variable component
<\$100 000	15	+/-40%
\$101 000 to \$1.5m	30	+/-40%
\$1.5m to \$10m	100	+/-40%
\$10m to \$55m	155	+/-40%
\$55m to \$121m	270	+/-40%
\$121m to \$200m	460	+/-40%
\$200m to \$410m	610	+/-40%
\$410m to \$1bn	830	+/-40%
>\$1bn	1 350	+/-40%

** may be adjusted in line with CPI movements*

Bandings are based on current cost experience in conducting audits.

After applying the above model, the hours to undertake the audit are allocated according to the staff mix necessary to conduct the audit. The respective staff charge rates are then applied to the allocated hours so as to determine a dollar amount (the audit fee). Where applicable, travel and other direct costs (out of pocket expenses) are added to the audit fee on a full cost recovery basis.

FEE SETTING

It is emphasised that the fee scales only provide a framework within which we set the actual fees charged to individual State entities.

The level of fee, and any change, experienced by individual State entities will therefore vary according to local circumstances and the risks each entity faces.

In certain circumstances, for example, where a State entity faces a particular challenge to manage high risks or there are particular local circumstances, a fee may fall outside the noted bands. In these cases, the audit fee will be determined in discussion between our staff and entity management, to reflect our assessment of risk and the extent and complexity of the audit work required.

SKILLS-RELATED FEE SCALES

In certain circumstances, we may need to use staff or contractors with specialist skills in order to review specific local issues. Where this is the case, it can result in higher costs being incurred. In these circumstances, the fee to be charged will be determined in discussion between our staff and entity management and will reflect the size, complexity or any other particular difficulties in respect of the audit work required. Where possible, we attempt to absorb such costs within the base audit fee.

PRINCIPLE FOR DETERMINING CHARGE RATES

Charge rates are based on the principle of the Office being able to recover its costs of operation. Charge rates comprise two parts, direct salary cost and overhead recovery. Direct travel time and costs attributable to each audit are billed separately and do not form part of our charge rates.

PRINCIPLE FOR AUDIT FEE DETERMINATION

Fees are set for each State entity commensurate with the size, complexity and risks of the engagement. These factors affect the mix of staff we assign to each audit and therefore the overall fee. Staff are assigned hourly charge rates for use in determining the allocation of work on the audit and in computing the fee.

There is an expectation that audits of similar complexity and risks will have a similar mix of staff.

BASIS OF FEES

Fees are calculated on the basis that:

- current accounting systems will be operating throughout the year with a satisfactory appraisal of internal control
- no errors or issues requiring significant additional audit work will be encountered during the course of the audit
- the standard period-end general ledger reconciliations will be available at the commencement of our year-end audit
- assistance for our staff will be provided with respect to reasonable requests for additional information throughout the audit
- agreed timetables will be met, within reason
- financial statements, complete in all material respects, are submitted to audit in accordance with statutory time limits
- the nature of the entity's business and scale of operations will be similar to that of the previous financial year
- fees incorporate financial statement disclosure and other specific audit related advice
- additional work (including work arising from the adoption of new accounting standards or issues associated with key risks and other matters arising) will be billed separately if it cannot be absorbed into the existing fee.

COMMUNICATION OF AUDIT FEES

In all cases, fees are communicated to each accountable authority prior to audit commencement or during the planning phase.

ADDITIONAL AUDIT WORK

In carrying out additional audit work, including government grant acquittals and other similar returns, we will recover, in respect of such work, an amount that covers the full cost of the relevant work undertaken.

The actual fees to be charged will be determined in discussion between our staff and entity management to reflect the size, complexity or any other particular difficulties in respect of these types of audits. Fees will have regard to the time taken, the audit staff assigned and their respective charge rates.

ADDITIONAL AUDIT FEES

If the circumstances outlined under the section headed "Basis of Fees" change in a year, we would seek additional fees from the entity. Any future impact of agreed additional fees would be assessed in terms of the on-going audit fee.

ADJUSTMENT TO FEES

Fees may be adjusted in the following circumstances:

- changes to the size and nature of the entity and its operations
- changes to the risks associated with a particular engagement
- changes to accounting and auditing standards requiring greater effort on our part
- ad-hoc matters that impact upon significant balances within the financial statements, such as a significant asset revaluation
- unavoidable increases in costs of maintaining our Office.

There may also be circumstances where, based on our assessment of size, complexity and risks of the engagement, our fees may be reduced.

APPENDIX A - ACRONYMS AND ABBREVIATIONS

AASB	Australian Accounting Standards Board
Audit Act	<i>Audit Act 2008</i>
Corporations Act	<i>Corporations Act 2001</i>
CPI	Consumer Price Index
GBE	Government Business Enterprise
Hydro / Hydro Tasmania	Hydro-Electric Corporation
IPSAM	Integrated Public Sector Audit Methodology
the Office	Tasmanian Audit Office
TI	Treasurer's Instructions

APPENDIX B - TIMELINESS OF REPORTING

Entity	Financial Report Submitted	Accepted Report certified by	Certified report received	Audit opinion signed
General Government Sector State Entities				
Executive & Legislature				
House of Assembly	14-Aug-18	AA	14-Aug-18	26-Sep-18
Legislative Council	14-Aug-18	AA	14-Aug-18	24-Sep-18
Legislature-General	14-Aug-18	AA	14-Aug-18	26-Sep-18
Office of the Governor	14-Aug-18	AA	14-Aug-18	7-Sep-18
Ministerial Departments				
Department of Education	14-Aug-18	M	26-Sep-18	28-Sep-18
Department of Health and Human Services	14-Aug-18	M	19-Sep-18	28-Sep-18
Department of State Growth	14-Aug-18	M	28-Sep-18	28-Sep-18
Department of Justice	14-Aug-18	AA	14-Aug-18	31-Aug-18
Department of Police, Fire and Emergency Management	14-Aug-18	M	27-Sep-18	28-Sep-18
Department of Premier and Cabinet	14-Aug-18	M	10-Sep-18	14-Sep-18
Department of Primary Industries, Parks, Water and Environment	14-Aug-18	M	30-Aug-18	31-Aug-18
Department of Treasury and Finance	14-Aug-18	AA	14-Aug-18	4-Oct-18
Treasurer's Annual Financial Report	26-Sep-18	AA	26-Sep-18	30-Oct-18
Tasmanian State Health Funding Pool	7-Aug-18	AA	7-Aug-18	19-Sep-18
Tasmanian Health Service	9-Aug-18	M	24-Sep-18	24-Sep-18
Other Consolidated Entities				
Abt Railway Ministerial Corporation	14-Aug-18	AA	14-Aug-18	28-Sep-18
Ambulance Tasmania	14-Aug-18	M	26-Sep-18	28-Sep-18
Housing Tasmania	14-Aug-18	M	26-Sep-18	28-Sep-18
Office of Tasmanian Assessment, Standards and Certification	14-Aug-18	AA	14-Aug-18	27-Sep-18
Tasmanian Affordable Housing Limited	14-Aug-18	AA	14-Aug-18	24-Sep-18
Tasmania Development and Resources	14-Aug-18	M	14-Sep-18	21-Sep-18
Tasmanian Museum and Art Gallery	14-Aug-18	M	27-Sep-18	27-Sep-18
Teachers Registration Board of Tasmania	14-Aug-18	AA	14-Aug-18	26-Sep-18
Other General Government Entities				
Asbestos Compensation Fund	14-Aug-18	AA	14-Aug-18	31-Aug-18
Inland Fisheries Service	19-Jul-18	M	19-Jul-18	31-Aug-18
Integrity Commission	10-Aug-18	AA	10-Aug-18	12-Sep-18
Marine and Safety Tasmania	13-Aug-18	AA	13-Aug-18	20-Aug-18
Office of the Director of Public Prosecutions	14-Aug-18	AA	14-Aug-18	24-Sep-18
Office of the Ombudsman and Health Complaints Commissioner	14-Aug-18	AA	14-Aug-18	13-Sep-18
Tasmanian Economic Regulator	13-Aug-18	AA	13-Aug-18	24-Sep-18

Entity	Financial Report Submitted	Accepted Report certified by	Certified report received	Audit opinion signed
Royal Tasmanian Botanical Gardens	14-Aug-18	M	28-Sep-18	28-Sep-18
State Fire Commission	14-Aug-18	AA	14-Aug-18	28-Sep-18
TasTAFE	13-Aug-18	M	13-Aug-18	21-Aug-18
Tourism Tasmania	7-Aug-18	M	17-Sep-18	20-Sep-18
Workcover Tasmania Board	14-Aug-18	AA	14-Aug-18	31-Aug-18
Other State Entities				
Aboriginal Land Council of Tasmania	14-Aug-18	AA	14-Aug-18	28-Sep-18
Bass Island Line Pty Ltd	8-Aug-18	AA	8-Aug-18	10-Aug-18
Council of Law Reporting	14-Aug-18	AA	14-Aug-18	11-Sep-18
Forest Practices Authority	10-Aug-18	M	20-Sep-18	21-Sep-18
Legal Aid Commission of Tasmania	14-Aug-18	M	20-Sep-18	21-Sep-18
Legal Profession Board of Tasmania	14-Aug-18	AA	14-Aug-18	16-Aug-18
Momentum Energy Pty Ltd	14-Aug-18	AA	14-Aug-18	14-Aug-18
National Trust of Australia (Tasmania)	15-Aug-18	M	28-Sep-18	28-Sep-18
Newood Holdings Pty Ltd	14-Aug-18	AA	14-Aug-18	27-Aug-18
Property Agents Board	14-Aug-18	M	28-Sep-18	28-Sep-18
Property Agents Trust	14-Aug-18	M	28-Sep-18	28-Sep-18
River Clyde Trust	14-Aug-18	AA	14-Aug-18	3-Oct-18
Superannuation Commission	14-Aug-18	M	15-Oct-18	17-Oct-18
Tasmanian Beef Industry (Research and Development) Trust	29-Oct-18	AA	29-Oct-18	31-Oct-18
Tasmanian Building and Construction Industry Training Board	9-Aug-18	M	21-Sep-18	24-Sep-18
Tasmanian Community Fund	14-Aug-18	AA	14-Aug-18	24-Sep-18
Tasmanian Dairy Industry Authority	20-Jul-18	M	20-Jul-18	10-Aug-18
Tasmanian Heritage Council	14-Aug-18	AA	14-Aug-18	25-Sep-18
The Nominal Insurer	14-Aug-18	AA	14-Aug-18	3-Sep-18
Wellington Park Management Trust	13-Aug-18	AA	13-Aug-18	26-Sep-18
Public Non-Financial Corporations/Public Financial Corporations				
Aurora Energy Pty Ltd	9-Aug-18	AA	9-Aug-18	9-Aug-18
Hydro-Electric Corporation	14-Aug-18	AA	14-Aug-18	14-Aug-18
Macquarie Point Development Corporation	14-Aug-18	M	29-Aug-18	31-Aug-18
Metro Tasmania Pty Ltd	9-Aug-18	AA	9-Aug-18	9-Aug-18
Motor Accidents Insurance Board	13-Aug-18	AA	13-Aug-18	15-Aug-18
Port Arthur Historic Site Management Authority	31-Jul-18	M	13-Sep-18	13-Sep-18
Private Forests Tasmania	14-Aug-18	M	20-Sep-18	27-Sep-18
Sustainable Timber Tasmania	14-Aug-18	AA	14-Aug-18	13-Aug-18
Public Trustee	14-Aug-18	M	31-Aug-18	3-Sep-18
Tasmanian Irrigation Pty Ltd	14-Aug-18	M	15-Aug-18	20-Aug-18
Tasmanian Networks Pty Ltd	13-Aug-18	AA	13-Aug-18	13-Aug-18

Entity	Financial Report Submitted	Accepted Report certified by	Certified report received	Audit opinion signed
Tasmanian Ports Corporation Pty Ltd	7-Aug-18	AA	7-Aug-18	10-Aug-18
Tasmanian Public Finance Corporation	13-Aug-18	AA	13-Aug-18	10-Aug-18
Tasmanian Railway Pty Ltd	23-Jul-18	M	8-Aug-18	9-Aug-18
Tasmanian Water and Sewerage Corporation Pty Ltd	13-Aug-18	AA	13-Aug-18	16-Aug-18
Tasracing Pty Ltd	13-Aug-18	AA	13-Aug-18	15-Aug-18
TT-Line Company Pty Ltd	13-Aug-18	M	13-Aug-18	13-Aug-18
Local Government Authorities				
Urban Councils				
Brighton Council	14-Aug-18	AA	14-Aug-18	10-Oct-18
Burnie City Council	14-Aug-18	M	27-Sep-18	28-Sep-18
Clarence City Council	14-Aug-18	M	26-Sep-18	26-Sep-18
Central Coast Council	13-Aug-18	M	5-Oct-18	5-Oct-18
Devonport City Council	14-Aug-18	M	20-Aug-18	9-Nov-18
Glenorchy City Council	14-Aug-18	M	27-Sep-18	28-Sep-18
Hobart City Council	14-Aug-18	M	7-Sep-18	28-Sep-18
Kingborough Council	14-Aug-18	M	28-Sep-18	28-Sep-18
Launceston City Council	13-Aug-18	M	5-Oct-18	5-Oct-18
West Tamar Council	13-Aug-18	M	3-Sep-18	3-Sep-18
Rural Councils				
Break O'Day Council	14-Aug-18	AA	14-Aug-18	6-Sep-18
Central Highlands Council	10-Aug-18	AA	10-Aug-18	24-Sep-18
Circular Head Council	14-Aug-18	M	27-Sep-18	27-Sep-18
Derwent Valley Council	14-Aug-18	M	28-Sep-18	28-Sep-18
Dorset Council	14-Aug-18	M	27-Sep-18	27-Sep-18
Flinders Council	14-Aug-18	M	27-Sep-18	28-Sep-18
George Town Council	11-Aug-18	M	7-Sep-18	11-Sep-18
Glamorgan-Spring Bay Council	10-Aug-18	M	10-Aug-18	24-Sep-18
Huon Valley Council	14-Aug-18	M	28-Sep-18	28-Sep-18
Kentish Council	14-Aug-18	M	21-Sep-18	26-Sep-18
King Island Council	14-Aug-18	M	16-Nov-18	19-Nov-18
Latrobe Council	14-Aug-18	M	3-Oct-18	5-Oct-18
Meander Valley Council	13-Aug-18	M	29-Aug-18	13-Sep-18
Northern Midlands Council	14-Aug-18	M	27-Sep-18	28-Sep-18
Sorell Council	14-Aug-18	M	3-Oct-18	3-Oct-18
Southern Midlands Council	10-Aug-18	AA	10-Aug-18	21-Sep-18
Tasman Council	14-Aug-18	M	9-Oct-18	11-Oct-18
Waratah-Wynyard Council	14-Aug-18	M	26-Sep-18	27-Sep-18
West Coast Council	10-Aug-18	M	10-Aug-18	24-Sep-18

Entity	Financial Report Submitted	Accepted Report certified by	Certified report received	Audit opinion signed
Other Local Government Entities				
Brighton Industrial and Housing Corporation	14-Aug-18	AA	14-Aug-18	27-Sep-18
Burnie Airport Corporation Unit Trust	13-Aug-18	M	20-Sep-18	21-Sep-18
C-Cell Pty Ltd as Trustee of the C-Cell Unit Trust	14-Aug-18	AA	14-Aug-18	26-Oct-18
Copping Refuse Disposal Site Joint Authority	14-Aug-18	AA	14-Aug-18	26-Oct-18
Cradle Coast Authority	14-Aug-18	M	25-Sep-18	25-Sep-18
Dulverton Regional Waste Management Authority	9-Aug-18	M	21-Sep-18	21-Sep-18
Launceston Flood Authority	14-Aug-18	M	24-Sep-18	28-Sep-18
Local Government Association of Tasmania	14-Aug-18	AA	14-Aug-18	14-Sep-18
Microwise Australia Pty Ltd	14-Aug-18	AA	14-Aug-18	28-Sep-18
North East Care Inc.	Not yet submitted	N/a	N/a	Audit not completed
Northern Tasmania Development Corporation Ltd	14-Aug-18	M	5-Sep-18	6-Sep-18
Southern Tasmanian Council Authority	14-Aug-18	AA	14-Aug-18	26-Sep-18
Tas Communications Unit Trust	3-Aug-18	M	17-Sep-18	17-Sep-18

Legend:

M Management

AA Authority

N/a Not applicable

Red text Indicates non-compliance with legislated timeframes

AUDIT MANDATE AND STANDARDS APPLIED

Mandate

Section 17(1) of the *Audit Act 2008* states that:

‘An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.’

Under the provisions of section 18, the Auditor-General:

- ‘(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).’

Under the provisions of section 19, the Auditor-General:

- ‘(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards
- (2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity’s appropriate Minister and provide a copy to the relevant accountable authority.’

Standards Applied

Section 31 specifies that:

‘The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
- (b) the Australian Auditing and Assurance Standards.’

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.



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